South Tuen Mun Government Secondary School

S3 Business, Accounting and Financial Studies (BAFS)

#7 Types of Limited Companies

Limited Company

A limited company is a business with a ______________ legal existence and is usually owned by __________________ people.

The ownership of a limited company can be divided into __________________ (also called stock), so a limited company is also called _____________-stock company.

Investors are called _________________ (also called stockholders) and their liability is limited to the amounts of money they have __________________.

Shareholders do not necessarily _______________ the business. They may appoint ______ ______________ for this purpose.

Types of limited companies

Every limited company _________________________ in Hong Kong is either private limited company or a public limited company.

Private limited company

A private limited company is called private because its shares cannot be sold to the ___________ ___. It must have between 1 and 50 shareholders. A private limited company does not need to disclose its ________________ information to the public.

If shareholders wish to sell their shares, they may be required to first __________ them to the existing shareholders of the company. Otherwise, the board of directors has the power to refuse to ___________________ transfer of shares.

Many private limited companies in Hong Kong are ________________ businesses. They are set up to obtain _______________ without losing ________________ of the business.

shareholders	**control**	**invested**	**many**
financial	**separate**	**family**	**run**
shares	**offer**	**joint**	**incorporated**
public	**register**	**directors**	**capital**

Public limited company

A public limited company can sell its shares to the ________. The number of shareholders in a public limited company has no ________ limit, but there must be at least ____ shareholder.

Since shares of a public limited company are sold to the general public to raise ________, there are usually many shareholders. A public limited company needs to ________ its financial information to the general public every ________.

In Hong Kong, a public limited company can become a ________ company by applying to Hong Kong Exchanges and Clearing Limited (HKEx) for ________. Before shares are offered for sale, the company decides how much capital it needs and therefore how many shares are to be sold. After becoming a listed company, the general public can buy and sell shares of the company on the ________ market.

Differences between private and public limited companies

	Private limited company	Public limited company
Number of shareholders	1-____	At least one, no upper limit
Raising Capital	● Invite new shareholders to join ● Raise capital from existing shareholders	More sources of capital: ● Raise capital from existing shareholders ● ____ new shares to the public
Disclosure of financial information to the general public	____ Required	Required
Transfer of shares	● The board of directors has the power to refuse to register share transfers ● Shares cannot be sold on the stock ________	● Shares can be ____ transferred. ● Shares can be bought and sold freely on the stock market if they are listed on a stock market.

year	**50**	**upper**	**listed**
listing	**public**	**Not**	**one**
capital	**Issue**	**disclose**	**Stock**
market	**freely**		

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#8 Characteristics and shares of a limited company

Characteristics of a limited company

1. Separate ________________ existence

By law, a limited company is an entity with a separate legal existence and is therefore ______________ of its owners. The company's future is not ________________ by the illness or death of its owners.

2. More sources of ________________

A listed company can raise capital by issuing shares to the general ____________. So it is easier for a public limited company to raise capital. Banks are more likely to give ______________ to limited companies as their scale of ________________ is usually large enough for them to have the ______________ to repay the loans.

3. Restriction on the company's name

A limited company must have the word '_____________ or 'Ltd' as the last word in its name.

4. Limited liability

Shareholders have limited liability. Their liability is limited to the amount they have _________.

5. Separation of ownership and management

A limited company may have a large number of ______________. Shareholders may not have the ______________ or time to manage the company and so may elect a board of ______________ to run the business. This is a _______________ practice for public limited companies since their shares may be ____________________ frequently.

6. Large scale of business

A limited company may have a huge number of shareholders and ________________. Also, since they have more sources of capital, limited companies are usually ________________ in scale.

ability	**employees**	**shareholders**	**loans**
legal	**threatened**	**large**	**operation**
public	**Limited'**	**independent**	**capital**
transferred	**usual**	**directors**	**invested**

Types of shares of a limited company

There are two main types of shares:

1. Ordinary shares

Ordinary shares are the main ________________ of a company's capital. A company may pay ____________________ to its shareholders. In general, ordinary shareholders __________ more dividends when the company earns more _________________. Sometimes dividends are not ________________ even though the company is earning profits because the company wants to use the profits for further ______________________.

Ordinary shareholders have _____________________ rights at the annual general ____________ and can elect a board of directors to ______________ the company.

2. Preference shares

Preference shareholders receive dividends _________________ ordinary shareholders are paid and have _______ dividends. However, preference shareholders have ____________ voting rights.

profits	**run**	**distributed**	**earn**
no	**source**	**before**	**investment**
voting	**meeting**	**dividends**	**fixed**

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#9 Advantages and disadvantages of a limited company

When compare with sole proprietorships and partnerships, limited companies have the following advantages and disadvantages:

Advantages	Disadvantages
1. Shareholders have limited liability, and can thus avoid the ________ of their personal ____________.	1. Setting up a limited company is ________ because more documents are required for ________.
2. It is a ________ legal entity. ________ in shareholders and directors will not affect the running of the company, so it has ______.	2. The profits tax it pays (______%) is higher than a sole proprietorship or partnership (15%) (from the year of 2008-09 onwards)
3. It is ________ for a limited company to raise ____________ than a sole proprietorship or partnership, resulting in a better chance of ______________.	3. The structure of the company may be so large and ____________ that the process of ________-making takes time. This results in a lack of ________.
4. The ________ of the business is larger than a sole proprietorship or partnership and so it is able to operate on a ________ scale.	

Changes	**complex**	**16.5**	**complicated**
large	**continuity**	**easier**	**decision**
registration	**efficiency**	**loss**	**development**
capital	**assets**	**size**	**separate**

Comparison between private and public limited company

	Private limited company	Public limited company
Advantages	1. No need to ________ a lot of information 2. Shares are not bought and sold ________, so the ________ shareholders have better ______ of the company. 3. Lower __________ costs in preparing financial statements are incurred. 4. The legal and administrative _____ for forming a private limited company are less ______ and ________.	1. It is easier to obtain ______ from banks and make purchases on ______ because of its higher ______________. 2. If the company becomes a listed company, more ________ can be raised by issuing ________ on the stock market. 3. The separation of ownership and ________ enables the company to hire ________ to assume different roles. This improves the company's management and ______.
Disadvantages:	1. It is more __________ to raise capital as the creditworthiness of a private limited company is ___ than that of a public limited company. 2. Shares cannot be easily ______ as the board of directors has the power to ________ to register share transfer.	1. The company needs to disclose much more information, including its ________ information. 2. If ________ of the shares fall into the hands of other, the existing shareholders may lose control of the company. 3. If it is a listed company, the ________ of its shares will be affected by the many other factors on the ________ market.

capital	**freely**	**price**	**financial**
stock	**most**	**loans**	**control**
accounting	**disclose**	**management**	**complex**
difficult	**lower**	**costly**	**creditworthiness**
credit	**procedures**	**shares**	**refuse**
specialists	**existing**	**efficiency**	**transferred**

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#10 Characteristics of a Franchise

Many well-known business in the ________________ businesses operate under a franchise arrangement. The owner of the ***franchise*** (_________________________) **allows** the owner of a ***retail business*** (________________) to sell its goods or services, in return for a franchise ____________. Franchising is a way for franchisees to operate as ________________ stores.

Franchisees are often required to pay __________________ to the franchisor, and share management and ____________________ fees with the franchisor regularly. Some franchisors calculate royalties based on the gross sales or gross _________________ that the franchisees earn. Franchisees must operate their businesses in a _________________ way to that of the franchisor. The franchisor will provide management __________________ to franchisees before they _____________ their businesses.

For the franchisor, franchising provides the business with an opportunity to _______________ with capital and ______________ provided by the franchisees. Examples of franchised businesses are 7-eleven, Grove Sandwiches, FitBoxx.com, Kodak Express and Quality Dry-Clean.

Characteristics of a franchise

1. Brand name well regarded by customers

Most franchises have built up a good _____________ for their ________________ or services. They are ________________ by customers as having good, consistent quality.

training	**products**	**chain**	**start**
franchisee	**franchisor**	**similar**	**promotional**
royalties	**manpower**	**retailing**	**recognized**
reputation	**profits**	**grow**	**fee**

2. Support from the franchisor

Franchisees receive the franchisor's ___________ in operating the business. For example, the franchisor helps the franchisees set up the __________ system and provides credit for ___________ ____ purchase. The franchisor also provides training to franchisees and their _________________.

3. Standardized operation

The store's ___________, staff ________________, logos, products and prices are ________________ according to the franchisor's requirements.

4. Control by the franchisor

The franchisees are required to operate their businesses according to the franchisor's ____________. The operations of the stores, such as the product _____________ and selling ______________, are monitored regularly by the franchisor.

5. Sharing of promotional expenses

The franchisees share the ___________ of promotional campaigns which are carried out by the franchisor.

6. Chain stores in different locations

The franchise system operates as a chain with stores located in ______________ areas. For example, 7-Eleven has stores in many Hong Kong districts.

uniforms	**support**	**display**	**employees**
inventory	**different**	**cost**	**standardized**
look	**strategy**	**accounting**	**instructions**

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#11 Advantages and disadvantages of operating Franchised shops-(i)

To franchisees

Advantages	Disadvantages
1. Franchisees obtain ______________ from the franchisor in terms of marketing, ______________ supplies, accounting and management.	1. Franchisees are often required to pay ___________, ___________ and ___________ fees to the franchisor whether or not a ______ is earned.
2. Franchised stores have built up ___________. Their products are ______________ and accepted by customers.	2. Franchisees may rely too heavily on the support of the ______________.
3. It is __________ to set up the business as the franchisor provides a wide range of support to franchisees.	3. Some franchisors' head offices are located overseas, so franchisees may find it difficult to ______________ and receive support within a short time.
4. Franchisees enjoy the benefits of a _____ shop, such as lower ________, when buying stock in ________.	4. Franchisees may have less ______________ in operating their businesses as the franchisor operations.
5. The ______________ system of franchised stores helps establish goodwill quickly.	

well-known	**promotional**	**costs**	**management**
	large	**management**	**support**
franchisor	**bulk**	**goodwill**	**easy**
independence	**royalties**	**communicate**	**profit**

Dictation

#1

#2

#3

#4

#5

#6

#7

#8

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#12 Advantages and disadvantages of operating Franchised shops-(ii)

To franchisors

Advantages	Disadvantages
1. Franchisors can obtain capital from franchisees who have to pay a franchise ____ to join the franchise.	1. Franchisors need to make a ____________ investment to build the franchise system and ___________, and to provide ________ and support to franchisees.
2. ___________ costs of franchisors can be reduced as their promotional and management fees are ______________ by franchisees.	2. Franchisors may not have complete _______ over their business. Franchisees may ruin the _________________ of the business if they manage their outlets ______________.
3. Franchising provides the business with an opportunity to __________ and build the brand with ____________________ and _____________ provided by franchisees.	3. Franchisors may need to disclose _________ information to franchisees who may become their future ______________.
4. The ______________ of the business is shared by franchisees who have also _______ money in the business.	

invested	**competitors**	**risk**	**grow**
Operating	**huge**	**control**	**fee**
poorly	**capital**	**infrastructure**	**reputation**
training	**shared**	**manpower**	**confidential**

Dictation

#1

#2

#3

#4

#5

#6

#7

#8